TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

1988

ANNUAL REPORT

Manitoba

89-05907/

Teachers' Retirement
Allowances Fund Board

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June 20, 1989

The Honourable Len Derkach,
Minister of Education and Training,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Mister Derkach:

In accordance with subsection 51(3) of The Teachers' Pensions Act, we are pleased to report on our administration of the Teachers' Retirement Allowances Fund for the year ended December 31, 1988. Appended to and forming part of this report are the following:

1. Statement of "Comparative Statistics" of Significant aspects of the Fund covering the period from inception in 1925 to the end of 1988.

2. Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1988, as required by Clause 51(3)(a) of the Act.

3. Financial Statements in respect of the year ended December 31, 1988, as follows:

Exhibit A - Balance Sheet as at December 31, 1988

Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1988

Exhibit C - Statement of Money Purchase Account for the year ended December 31, 1988

Schedule 1 - Summary of Investments as at December 31, 1988

Schedule 2 - Summary of Investment Income for the year ended December 31, 1988

Notes to the Financial Statements for the year ended December 31, 1988.

INVESTMENTS

Under the Act, investments are made as directed by the Investment Committee, composed of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 7 formal meetings during 1988 and the results of its decisions are portrayed in the following paragraphs. Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing longer term fixed income securities increased by 1.4% to 59.1%, offset by a decrease in short term investments and in non-fixed income investments of .7% each.

During 1988, invested assets increased by more than $63,000,000. This amount along with over $18,000,000. of funds received from securities sold or matured was invested as follows:

	% of Total	Cost (thousand $)	Average Yield %
Bonds - Governments	20.2	$16,406,	10.49
- Canadian Corporations	6.7	5,437,	10.77
Total Bonds	26.9	21,843,	10.56
Mortgages - Insured, NHA (regular)	11.5	9,363,	10.94
- Insured, NHA (index linked)	31.7	25,772,	4.89 + CPI
- Uninsured	.7	600,	10.65
Total Mortgages	43.9	35,735,	
Total Fixed Income	70.8	57,578,	
Equity Investments			
Real Estate	4.8	3,894,	*
Direct Natural Resources	7.7	6,271,	*
Venture Capital	6.0	4,858,	*
Total Equity	18.5	15,023,	
Total Longer Term Investment	89.3	$72,601,	
Short Term Investment	10.7	8,675,	
Total New Investment	100.0	$81,276,	

* Rates of return to be achieved on these 3 asset classes cannot be predetermined as they are obtained through future rentals, product sales, dividends, interest payments, and net capital gains at time of sale. Over the longer term, investments of these types have historically yielded greater returns than fixed income investments.

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $72,000,000. of unfunded commitments were in place at the end of the year, as follows:

	Amount (thousand $)	Average Yield
Mortgages:		
- Insured, NHA - regular	$ 28,733,	11.12%
- Insured, NHA - index linked	25,698,	5.07% + CPI
Real Estate Equity	6,737,	
Direct Natural Resources	7,902,	
Venture Capital	3,820,	
Total Commitments	$ 72,890,	

The rate of return on average net assets of the Fund increased in 1988 to 10.00% from 9.90% in the preceding year.

PENSIONS

During the year there was a net increase of 206 in the number of people receiving retirement income and other monthly benefits. The following is a summary analysis of the number of persons receiving different types of retirement income benefits at December 31, 1988:

Regular service pensions -	
to retired teachers	3,650
to dependants or estates of deceased retired teachers	123
Disability pensions -	
to retired disabled teachers	101
to dependants or estates of deceased retired disabled teachers	6
Death benefits - to surviving spouses or children of deceased teachers	74

Special annuities -	
to former teachers of retirement age not entitled to regular pensions	222
	4,176

ACTUARIAL VALUATION

As required by subsection 45(4) of the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1987, disclosed an actuarial surplus of $29,412,601. As a result, we are pleased to report that the Actuary has certified that "the assets of Account A, together with the contributions expected to be received from and on behalf of the teachers who are participating in the Fund, are sufficient to provide the benefits promised by the Act as they fall due".

BOARD MEMBERSHIP

During the year, Mr. David Lerner was appointed a member of the Board to replace Mr. Murray Smith whose term of appointment expired on June 30, 1988 and Mr. Lorne Ross was appointed a member of the Board to complete the term of Mr. William Lavery who had resigned due to a transfer of employment. We wish to record our appreciation for the contribution that both retiring members made to the administration of the Fund during the time they served as members of the Board.

Respectfully submitted:

THE TEACHERS' RETIREMENT
ALLOWANCES FUND BOARD,

BY James G. Oborne, Chairman,

Members:

(1) George Strang, Vice Chairman
(1) David Lerner
(1) Anne Monk
Lorne Ross
(2) Stephanie Shumilak
(2) Ray Whiteway

(1) Nominated by The Manitoba Teachers' Society
(2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1988

Year Ended June 30	Net Assets	Income From Investments			CONTRIBUTIONS			Admin. Expenses	Refunds	Pensions			
			Approx. Rate of	Number of Teachers	Teachers	Province of Manitoba	School Districts			Cost	Being Paid at end of period	Added during period	Deleted during period
	($ 000)	($ 000)	Return %	Contributing	($ 000)	($ 000)	($ 000)	($ 000)	($ 000)	($ 000)			
1925-1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949-1965	28,084,	7,973,	3.25-5.00	9,000	17,806,	4,287,	4,683,	342,	3,771,	8,759,	960	1,207	356
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968.....	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended Dec. 31,													
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,	--	404,	2,191,	20,867,	3,007	143	71
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,	--	493,	2,210,	23,054,	3,117	194	84
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,	--	549,	2,027,	25,519,	3,239	197	75
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,	--	660,	1,980,	28,522,	3,355	213	97
1985.....	414,458,	39,506,	10.85	13,287	31,214,	18,184,	--	709,	1,914,	32,092,	3,542	260	73
1986.....	475,214	46,935,	11.25	13,763	32,890,	20,423,	--	823,	1,744,	36,771,	3,733	291	100
1987.....	534,874	47,682,	9.90	14,115	33,667,	22,496,	--	961,	2,013,	41,885,	3,970	330	93
1988.....	599,540	54,977,	10.00	14,258	34,604,	25,523,	--	1,198,	2,466,	47,043,	4,176	303	97

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B and C and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1988 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor.

May 9, 1989,
Winnipeg, Manitoba.

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1988
(with 1987 figures restated for comparison)

A S S E T S

	1988	1987
Investments, Schedule 1	$587,736,075	$524,303,273
Unamortized net adjustment to book value of securities sold before maturity	34,440	64,677
Accrued interest on investments	6,201,746	5,573,218
Investment income receivable	2,257,981	1,656,826
Teachers' contributions receivable from school divisions	2,907,850	2,626,623
Receivable from Government of the Province of Manitoba	936,683	566,531
Computer and office equipment, at cost less accumulated amortization of $156,216 (1987 - $107,486), Note 2(F)	96,204	124,164
	$600,170,979	$534,915,312

L I A B I L I T I E S

Bank overdraft and cash on hand	$ 134,126	$ (471,561)
Accounts payable	496,449	512,818
Money Purchase Account, Note 4, Exhibit C	64,726	28,323
Provision for Fund's share of employees' pension benefits, Note 2(E)	680,070	572,862
	1,375,371	642,442
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	548,447,906	489,280,194
Pension indexing adjustments	48,536,562	43,354,910
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,662,809	1,491,174
Manitoba Association of School Trustees	148,331	146,592
	598,795,608	534,272,870
	$600,170,979	$534,915,312

THE TEACHERS' RETIREMENT ALLOWANCES FUND — **Exhibit B**

Statement of Changes in Benefit Reserves
for the year ended December 31, 1988
(with 1987 figures for comparison)

	1988					1987
	Reserve for Teachers' Share of Benefits		Reserve for Employers' Share of Benefits			
	Basic	Pension Indexing Adjustments	Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
Additions:						
Contributions:						
Teachers	$ 28,909,912	$ 5,694,365	$ --	$ --	$ 34,604,277	$ 33,666,816
Province of Manitoba:						
Share of benefits charged	23,789,562	--	--	--	23,789,562	20,760,037
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	--	--	--	1,613,300	1,613,300
Prior rural service of certain Winnipeg teachers	119,697	--	--	--	119,697	122,664
Manitoba Teachers' Society	--	--	75,398	--	75,398	72,541
Manitoba Association of School Trustees	--	--	--	3,247	3,247	8,296
Other: Transfers under reciprocal agreements	960,510	--	--	--	960,510	1,541,418
Transfer from Money Purchase Account, Exhibit C	106,065	--	--	--	106,065	38,753
Total contributions	55,499,046	5,694,365	75,398	3,247	61,272,056	57,823,825
Investment Income, Schedule 2, Note 2	50,049,651	4,763,724	149,869	14,179	54,977,423	47,681,911
Total additions	105,548,697	10,458,089	225,267	17,426	116,249,479	105,505,736
Deductions:						
Pensions paid	41,697,305	5,276,437	53,632	15,687	47,043,061	41,884,834
Contributions refunded	2,466,114	--	--	--	2,466,114	2,013,279
Transfers under reciprocal agreements	1,019,144	--	--	--	1,019,144	1,055,909
Administrative expenses	1,198,422	--	--	--	1,198,422	960,689
Total deductions	46,380,985	5,276,437	53,632	15,687	51,726,741	45,914,711
Net increase for year	59,167,712	5,181,652	171,635	1,739	64,522,738	59,591,025
Balance at beginning of year	489,280,194	43,354,910	1,491,174	146,592	534,272,870	474,681,845
Balance at end of year, Exhibit A	$548,447,906	$48,536,562	$1,662,809	$148,331	$598,795,608	$534,272,870

Exhibit C

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Money Purchase Account for the year ended December 31, 1988 (with 1987 figures for comparison)

	1988	1987
Additions:		
Deposits	$139,242	$ 45,756
Allocation of interest income net of administration fee	3,226	1,876
	142,468	47,632
Deductions:		
Transfer to basic reserve upon election of annuity, Exhibit B	106,065	38,753
Increase for the year	36,403	8,879
Balance at beginning of year	28,323	19,444
Balance at end of year, Exhibit A	$ 64,726	$ 28,323

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1988

	Par Value	Book Value
Fixed income longer term investments, Note 2(B)(i):		
Bonds and other debt instruments issued by, or guaranteed by, the following:		
Canada	$ 94,596,125	$ 63,410,698
Province of Alberta	65,000	64,990
Province of British Columbia	3,329,875	1,554,182
Province of Manitoba	22,580,000	22,556,057
Province of New Brunswick	865,000	863,116
Province of Newfoundland	1,000,000	995,090
Province of Nova Scotia	220,000	218,753
Province of Ontario	14,972,375	10,317,212
Province of Prince Edward Island	690,000	683,235
Province of Quebec	450,000	449,430
Province of Saskatchewan	650,000	648,200
Hospital districts	6,174,000	6,167,158
Municipal corporations	9,995,904	9,980,728
Corporations	78,545,407	76,907,938
	234,133,686	194,816,787
Mortgages:		
Insured:		
National Housing Act (Canada) - regular	103,969,184	103,564,115
National Housing Act (Canada) - index linked	29,374,033	29,374,033
Other	3,876,631	3,861,594
Uninsured	18,692,194	18,666,236
	155,912,042	155,465,978
Total fixed income longer term investments at amortized cost		350,282,765
Less: Provision for capital losses		3,143,512
Net fixed income longer term investments, carried forward		$347,139,253

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1988

	Book Value
Brought forward	$347,139,253
Non-fixed income investments, Note 2(B)(ii):	
Real estate equity investments:	
Common shares	29,257,804
Participating bonds	49,083,752
Qualifying shares	60,000
Total real estate equity investments, at appraised values	78,401,556
Less: Provision for valuation declines	4,819,973
Net real estate equity investments	73,581,583
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	25,196,850
Investment in subsidiary, Note 3	1,000
Total direct natural resource investments	25,197,850
Venture capital equity investments, at appraised values	22,264,832
Less: Provision for valuation declines	403,000
Net venture capital equity investments	21,861,832
Real estate acquired through mortgage defaults	5,030,557
Total non-fixed income investments	125,671,822
Short term notes, at cost	114,925,000
Total Investments, Exhibit A	$587,736,075

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income
for the year ended December 31, 1988
(with 1987 figures for comparison)

	1988	1987
Fixed income longer term investments, Note 2(B)(i):		
Interest	$32,355,630	$29,199,393
Amortization of discounts and premiums	3,171,857	1,577,462
	35,527,487	30,776,855
Less: Allocation to provision for capital losses	825,875	714,640
	34,701,612	30,062,215
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity:		
Interest and dividends	6,413,550	5,781,669
Adjustment due to changes in book value of investments	1,157,650	2,371,071
	7,571,200	8,152,740
Direct natural resources:		
Income from subsidiary	991,429	309,671
Dividends	420,575	615,745
Adjustments due to changes in book value of investments	(866,000)	(1,301,100)
	546,004	(375,684)
Venture capital equity:		
Income	645,963	890,569
Adjustments due to changes in book value of investments	(27,000)	(360,500)
	618,963	530,069
Mortgage investment corporation:		
Dividends	--	57,080
Canadian Commercial Bank:		
Proceeds from sale of assets, Note 5	106,636	--
Income from real estate acquired through mortgage defaults	357,930	507,210
Short term notes:		
Interest	11,144,183	8,805,771
Total investment income	55,046,528	47,739,401
Allocated to:		
Provision for Fund's share of employees' pension benefits	(65,879)	(55,614)
Money Purchase Account, net of administration fee	(3,226)	(1,876)
Net Investment Income, Exhibit B	$54,977,423	$47,681,911

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1988

1. Nature of the Organization:

The Teachers' Retirement Allowances Fund Board was originally constituted under an Act passed at the 1925 session of the Legislature and is responsible for administering the current legislation, The Teachers' Pensions Act. The Act provides for the establishment and maintenance of a pension plan and fund to provide retirement security for all public school teachers in Manitoba.

The Teachers' Retirement Allowances Fund primarily consists of contributions made by teachers and provides funds to meet half the cost of retirement benefits.

2. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment valuation and income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Non-fixed income investments:

Where valuation information is available, which is considered by management to be reliable, non-fixed income investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. The portion of any valuation decline exceeding the provision balance is charged to income. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income.

(a) Investment in subsidiary:

The investment in subsidiary is accounted for on the equity method. On this basis the net change in the equity of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba Inc., is recognized as income or expense to the Fund and changes the carrying value of the investment.

(b) Real estate acquired through mortgage defaults:

Properties taken over by the Fund as a result of mortgage defaults are recorded at cost. These properties presently provide the Fund with rental income and are sold when economic conditions are favorable.

(C) Pension indexing adjustment reserve:

An allocation of teachers' contributions is made to the reserve in accordance with the Act. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on all fixed income investments in the Fund.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) Actuarial valuation:

The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1987, disclosed a surplus of $29,412,601 compared to a surplus of $37,677,206 at January 1, 1984.

(E) Provision for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Provision each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Provision in 1988 and 1987 were as follows:

	1988	1987
Balance, beginning of year.....	$572,862	$512,239
Charged to Administrative expenses		
Adjustment re actuarial valuation at December 31, 1986.....	--	(28,639)
Required employer contributions...	41,329	33,648
Interest allocated from investment income.....	65,879	55,614
Balance, end of year.....	**$680,070**	**$572,862**

(F) Computer and office equipment:

Computer equipment, office equipment and software acquisitions are capitalized and amortized on a straight line basis over five years.

3. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (TRRICMI), a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

The Fund's investment in TRRICMI is comprised of:

	1988	1987
Shareholder's advances.....	$ 900	$4,785,154
Capital stock.....	100	100
Retained earnings (deficit).....	--	(991,429)
Investment in subsidiary.....	$ 1,000	$3,793,825

Subsequent to the 1987 year end, and before preparation of the 1987 financial statements, it was determined that, largely because of the accounting treatment followed in the past, the carried value of the Fund's investment in TRRICMI was significantly in excess of realizable value. Accordingly, the carried value of this investment was written down by $1,301,100 to $3,793,825 and the book loss was applied as an adjustment of 1987 investment income.

Effective April 13, 1988, TRRICMI ceased its joint venture oil and gas resource investment activity. The investments held in TRRICMI were transferred to the Fund and exchanged for shares in a different pension resource corporation (Exchange Resources Ltd.). TRRICMI realized a gain of $975,835 on the transfer of its investments to the Fund. This gain reflects repayments and petroleum incentive grants received in 1988. The combined effect of the book loss recorded in 1987 and the gain realized in 1988 is a net loss of $325,265.

4. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 74 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, is transferred to the Basic Benefit Reserve.

5. Proceeds from Sale of Assets:

The failure of the Canadian Commercial Bank in 1985 resulted in the write down of the Fund's investment in that bank to $1. Legal action taken on behalf of the Fund produced a partial return of capital of $106,636 with further funds possible in 1989.